



STATE OF MICHIGAN
OFFICE OF THE GOVERNOR
LANSING

JOHN ENGLER
GOVERNOR

May 22, 2002

Darnell Earley, Acting Mayor
City of Flint
1101 South Saginaw Street
Flint, MI 48502

Dear Mayor Earley:

Public Act 72 of 1990, the Local Government Fiscal Responsibility Act, requires that I, as Governor, reach one of three conclusions within 30 days of receiving a financial review team report: that a serious financial problem does not exist within the unit of local government in question; that a serious financial problem does exist, but that a consent agreement to resolve the problem has been entered into with the unit of local government; or that a financial emergency exists because there is no plan in place to resolve a serious financial problem.

While I am aware that Flint officials recently have adopted various measures intended to address the city's financial situation, in my view the actions taken to date are not sufficient to warrant the conclusion that a serious financial problem no longer exists. Similarly, no consent agreement has been adopted between city officials and the Flint Financial Review Team.

Therefore, I wish to inform you and members of the Flint City Council that, pursuant to Section 15(1)(c) of the Local Government Fiscal Responsibility Act, I have determined that a financial emergency exists in the City of Flint because no satisfactory plan exists to resolve a serious financial problem.

Findings of Fact

Section 15(2) of the Act requires that, upon the determination by me of a financial emergency, I provide you with findings of fact utilized as the basis upon which this determination was made, and a concise and explicit statement of the underlying facts supporting the factual findings.

On March 21st through March 26th, 2002, the Department of Treasury conducted a preliminary review of the finances of the City of Flint to determine whether or not a serious financial problem existed. The preliminary review of the City of Flint resulted from the State Treasurer receiving on March 19, 2002, a resolution from the Michigan

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Senate requesting that he conduct a review of the financial condition of the City of Flint. The preliminary review found the following:

- As of June 30, 2001, the city had a general fund deficit of \$26,585,346. The deficit grew from the June 30, 2000, deficit of \$13,097,180. An extreme imbalance of expenditures greatly exceeding revenues, as has been the case in most recent fiscal years, continued during the 2001 fiscal year.
- Budgeted revenues for the fiscal year ending June 30, 2001, were overestimated by \$13,000,000. The city administration's use of these overstated revenue projections resulted in the adoption of an unrealistic budget for the general fund by the city council.
- Deficiencies in the city's property tax collection and distribution process resulted in \$11,985,727 in Industrial Facility Tax and Commercial Facility Tax payments for various years which remain due to the State of Michigan for deposit to the State School Aid Fund.
- For the past several fiscal years, the city had been unable to prepare financial information timely, resulting in the delinquent filing of its annual audit beyond the time period required by Public Act 2 of 1968, the Uniform Budgeting and Accounting Act.
- Many comments in the management letter, which accompanied the 2001 fiscal year financial audit report, were indicated as repeated from prior year financial audit reports. These repeat comments recognized that the city administration had failed to address serious financial matters confronting the city.
- For most recent fiscal years, the city administration allowed, and continued to operate with, a substantial general fund structural deficit. The June 30, 2001, financial audit report contained a "going concern" comment related to the ability of the city to exist in the future and noted that adherence to the deficit elimination plan would be essential if the city is to survive financially.
- The fiscal year 2001 financial audit report identified nearly \$49.5 million in interfund receivables and payables, nearly \$32 million of which was due to the city enterprise funds from the general fund. The ability of the general fund to repay these receivables is highly questionable. Additionally, long-term infrastructure needs of the city's enterprise operations are severely impeded by the general fund's use of those resources.

Based upon the preliminary review, the State Treasurer concluded on March 26, 2002, that a serious financial problem existed and recommended the appointment of a financial review team.

Review Team Findings

On March 27, 2002, a financial review team was appointed to conduct a more detailed review of the financial condition of the City of Flint. The Review Team convened on April 2nd, 8th, 10th, and 23rd, 2002 to consider information relevant to the financial condition of the City of Flint and found, or confirmed, the existence of the following:

- As of June 30, 2001, the city had a general fund deficit of \$26,585,346. The general fund deficit doubled from the June 30, 2000, amount of \$13,097,180.
- The pooled cash position of the city had deteriorated significantly in recent years, from \$83 million at the end of fiscal year 1997 to \$22.9 million at the end of fiscal year 2001, as city officials have borrowed the assets of other funds to supplement the general fund.
- The financial audit reports for the last three fiscal years reflected a significant negative variance between general fund budgeted revenues and expenditures versus revenues and expenditures actually realized. These significant variances, in concert with a demonstrated inability of city officials to accurately monitor revenues and expenditures throughout the year and to amend the budget accordingly, rendered the adopted budgets effectively meaningless as a financial management tool.
- Deficiencies in the city's property tax collection and distribution process resulted in Industrial Facility Tax and Commercial Facility Tax payments being owed to the State in the amount of \$11,985,726.58.
- For the past five fiscal years, the city failed to file annual financial audit reports with the Michigan Department of Treasury within the time period required by Public Act 2 of 1968, the Uniform Budgeting and Accounting Act.
- The management letter accompanying the 2000 and 2001 financial audit reports cited numerous deficiencies in financial reporting, record keeping, and internal controls systems. Specifically, the city failed to maintain an accurate and timely general ledger, failed to perform timely reconciliations of bank balances to the general ledger, and incurred an excess of expenditures over revenues.
- City officials failed to present to the Review Team any comprehensive plan to address the current financial emergency. Although the proposed operating budget for the 2003 fiscal year contained \$9 million of reductions, it remained unclear whether city officials would be capable of reaching agreement with respect to them. Furthermore, the 2003 fiscal year proposed budget as presented to the Review Team, did not address the accumulated general fund deficit, which

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has continued to increase rather than decrease as city officials had projected under a deficit elimination submitted to the Department of Treasury in 2001.

- The status of city collective bargaining agreements remained unresolved. The city presently is engaged in compulsory arbitration, city officials have not budgeted for any salary increase that may be awarded. Therefore, whatever arbitration award is issued may be retroactive to 1998 and any award greater than zero will immediately add to the existing deficit.

Based upon the foregoing, the Review Team confirmed the findings of the preliminary review, concluded that a local government financial emergency exists within the City of Flint because no satisfactory plan exists to resolve the serious financial problem, and recommended appointment of an emergency financial manager. Pursuant to Section 15(1)(c) of the Act, I have determined the same to exist.

Notice of Hearing

Pursuant to Section 15(2) of the Local Government Fiscal Responsibility Act, you as chief administrative officer, or members of the Flint City Council, may request a hearing upon the determination of the financial emergency. The deadline for requesting a hearing is 5:00 P.M., Monday June 3, 2002. In the event that a hearing is requested, it will be convened on Monday, June 24, 2002, at 10:00 A.M. at the Treasury Building before my designee, Julie A. Croll, Chief Deputy State Treasurer.

Sincerely,

John Engler
Governor

cc: Flint City Councilmembers

Douglas B. Roberts, State Treasurer

Nancy Taylor, Deputy State Treasurer, Tax Administration and Oversight